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Restaurant Business

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ENTERTAINING RESTAURANTS: WHAT'S HOT, WHAT'S NOT

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COVER PHOTO BY MIKE McCORMICK

THE TAX BITE

BY IRVING BLACKMAN

BORROWING FROM YOUR CORPORATION

Congress did it. The interest-free loan loophole has been slammed shut. But, all is not lost. You, even though a shareholder, can still borrow from your corporation without being hit by the IRS.

A below-market interest (BMI) loan charges no interest or charges interest below the current market rate (CMR). In general, when money is loaned at BMI, the "imputed interest rules" create interest where none exists. The amount of interest created is the difference between the CMR and the interest charged on the BMI loan, and is called "forgone interest."

The rules create the fiction that the lender transfers the forgone interest to the borrower along with the loan principal. In the case of a BMI loan from a corporation to a shareholder, the result is a tax disaster. The amount of the forgone interest is treated as a dividend to the shareholder. Next, the shareholder is considered as paying the forgone interest back to the corporation. This is the imputed interest. So the shareholder comes out even: His dividend income from the forgone interest is offset by the interest deduction from his imputed interest. But the corporation gets clobbered: It has interest income from the imputed interest and only a nondeductible dividend from the forgone interest. Here's an example:

During 1986, Joe Success borrows $20,000 without interest from his corporation. The CMR for the year is 10 percent. The forgone interest transferred from the corporation to Joe is treated as a $2,000 dividend ($20,000 x 10%). The imputed interest from Joe to the corporation is also $2,000. Joe's $2,000 dividend income is offset by his $2,000 interest deduction. The corporation, however, is socked with $2,000 in interest income. A terrible tax result!

These seemingly disastrous rules can actually be turned to your advantage. Corporate-shareholder loans, as they always have been in the past, are fraught with this ever-present dividend threat. But you can avoid the threat. Just make your loans at market rates! Then, the imputed interest rules will be neutralized.

The author, an attorney and a certified public accountant, is senior partner at Blackman, Kallick and Co., Chicago, and author of "Winning the Tax Game."

TAX SHELTER REGISTRATION

It's amazing how quickly a myth can be born. Yes, certain tax shelters must be registered with the IRS. No, registration does not assure you IRS approval for deductions taken in connection with the registered shelter. Anything you hear to the contrary is a myth.

The plain truth is that registration allows the IRS to monitor shelters more effectively and nail investors if the shelter does not pass tax muster. The procedure is simple: The IRS assigns a number to each registered tax shelter; the promoter must provide the number to each investor; and the investor must include the number on his tax return. Any failure to follow the rules opens you up to very stiff penalties.

Promoters must register shelters that:

(1) project write-offs greater than two times an individual's investment;

(2) expect five or more people to invest in; or

(3) offer more than $250,000 for sale.

In general, the allowance of a tax shelter deduction will depend on the "economic substance" of the deal. How can you judge if the deal will stand up to IRS attack? Figure the deal without the tax juice. If the deal flunks economic reality, it will probably flunk an IRS examination. Investing in such a deal is sucker's bait. Don't do it.

Almost every business owner has a better place to invest his money for overall after-tax profits: his own closely held corporation. Net worth can be built while sheltering income with legitimate deductions. Small business has been blessed with the ability to use a string of IRS-approved methods to divide income among the family, defer taxes, and build wealth.

COMPARING DEDUCTIONS

It has never been a secret: The more you deduct, the more tax you save. On the other hand, this is also a fact: The greater your deductions, the greater your chance of a tax audit. Every year, the IRS opens its books to give you a peek at the deduction level of your fellow taxpayers. The accompanying chart looks at the average deductions taken on 1984 tax returns filed in 1985.

The medical expense deduction is a bit of a fooler. Since only expenses in excess of five percent of adjusted gross income are deductible, most taxpayers claim no medical expense deduction. As a result, the medical expense figures shown only include those returns that claimed such a deduction.

Don't get swept away by how much the other guy deducts. Use the figures only for comparison. Don't believe any rumors you hear about the IRS rule allowing you to take an average deduction; all are a myth. The official rules are clear: only expenses actually paid are a legitimate deduction. And remember, if you are audited, you, must prove your deductions. So, keep your receipts and other documentation.

HOW DO YOU COMPARE?

National Average Deductions Claimed For 1984

Deduction	30-40*	40-50*	50-75*	75-100*	100-200*

*Adjusted Gross Income in Thousands of Dollars.

LIFE CARE CENTERS: A NEW OPPORTUNITY

Residential communities, offering senior citizens independence and peace of mind, are a growing field.

While hundreds of companies stampede the baby boomers for business, a select few are quietly concentrating their efforts on attracting a fast growing and often overlooked demographic segment: seniors. Indeed the special needs of the over-60 market provide an avenue of growth for diversified corporations such as ARA Services Inc. and Marriott Corp., and an entry into the lodging sector for innovative entrepreneurs such as Pennsylvania-based Life Care Community Corp.

Life care communities combine the best of two worlds under one roof. Active, self-sufficient seniors join a comfortable, residential community that offers a variety of services, including foodservice. The added inclusion of skilled health care facilities within the community enables aging residents to cope with any emergency with a minimum of disturbance.

Although life care communities have been in existence for more than 25 years—generally in the guise of religious and other not-for-profit facilities—recent demographic and psychographic trends have made residential communities for seniors more marketable, and profitable, enterprises.

OPPORTUNITIES. Currently, approximately 11 percent of the population (about 25 million Americans) is over the age of 65. Over the next 40 years, that proportion of senior citizens is expected to double, which means as many as 50 million older Americans will be making retirement choices.

And while the population skews upwards in terms of age, family size, and thus size of residences, is shrinking. Smaller houses mean that it will become increasingly more impractical for families to house aging parents. In addition, the continued emphasis on healthy living is resulting—and will continue to result—in an older population base in good health. These healthier seniors can live on their own longer, not requiring the services of a nursing home. Life care communities offer them the self-sufficiency they desire in a community environment.

In addition, some preliminary studies actually indicate that life care residents stay healthier longer, experiencing fewer illnesses than average, fewer hospitalizations, and longer life overall. The typical life care resident today is in his or her early 70s, with the expectation of living from 10 to 14 years longer depending on sex. (Females tend to live longer.)

Many of these active seniors are in upper middle income brackets. Indeed, there is a fairly affluent base from which life care communities draw their

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Marriott's life care division will open its first community, Vista at Canyon Lakes (above) in early 1989.

by Denise Brennan

At ARA's communities, foodservice is a special focus.

LIFE CARE *from page 202*
residents. In 1980, 6.4 percent of men over 65 had incomes above $25,000; by 1984 that proportion nearly doubled, to 12 percent. Used to a certain level of privilege, these seniors want attractive, well-designed homes, but many would prefer to avoid the stresses of upkeep required to maintain a home.

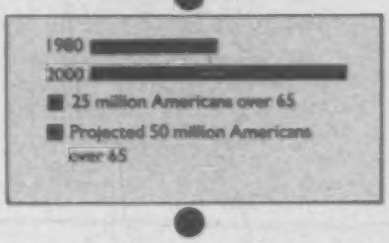
As a result of these changes, it comes as no surprise that the $4 billion life care community industry is thriving. Indeed, today there are 700 communities throughout the country; this number should triple over the next 10 years, to 2,100.

CONTINUING CARE. "Dining is considered a social occasion and is an important selling tool in life care communities," emphasizes Walter Geggis, regional vice-president of Healthcare/Nutrition Services for Philadelphia based ARA Services Inc. "Many seniors move to retirement villages for the guaranteed socialization they provide. Much of that activity revolves around meals and, therefore, the quality of food."

In 1985, ARA reorganized to separate the operational areas of continuing care and acute care. Continuing care falls under Geggis' jurisdiction. This division services approximately 30 clients and is an area pegged for further growth. Explains Geggis: "In addition, there is a growing number of senior citizens who are capable of enjoying retirement and have the financial resources to do so."

According to Geggis, the separation was made because the healthy senior

The number of senior citizens is expected to double by the year 2000.



citizen has a different set of needs than those who require constant skilled nursing care. "Acute care is considered an extension of hospital foodservice and this is not what life care communities are all about. For example, we can serve tea daily at 3:00 p.m.—which is not something that would be done in a traditional nursing home."

The division operates via management contracts which usually consist of reimbursed cost plus a fee. In some instances, ARA is also responsible for a participation percentage. However, Geggis is quick to point out that there are "many variations." And, similar to college and university foodservice accounts, life care facility meal plans are tailored to each individual account, ranging from charging a fee which entitles the senior citizen to one meal per day; a three-meal plan; or an a la carte program.

As more life care facilities are built, giving seniors greater residential choices, ARA will market its ability to create new menu ideas to meet the needs of these seniors. "The challenge is to develop menus that will continue to interest Mrs. Jones for the next 10 years," notes Geggis. From ARA's perspective, the company looks for a minimum population of 150 residents. In addition, ARA requires that the center's administration indicate a willingness to make quality foodservice a focal point of the residents' life.

MARRIOTT MOVES IN. Marriott Corp. showcases a formidable combination of talents well-suited to specialized residential development. Financial strength, extensive hotel management skills, and long-term restaurant and contract catering experience are hallmarks of the industry giant whose clout also includes real estate development expertise—to the tune of $1 billion in annual project development.

Marriott began investigating opportunities in the specialized life care sector in 1982. Two years later, the Washington, DC-based company launched its Lifecare Retirement Communities Division. Current plans call for its first community, The Vista at Canyon Lakes in San Ramon, CA, to open in early 1989. The company will own and manage the facility and an elected Residents Association will represent the interests of the residents.

"In essence, life care is a holistic approach to retirement living," says J.W.

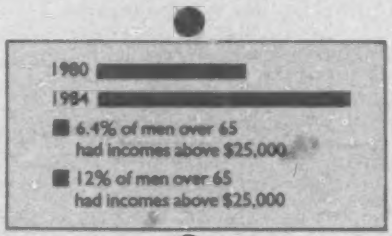
ARA's facilities duplicate the comforts that seniors are used to.

Marriott Jr., chairman of the board and president of the company, in a statement explaining the company's entry into the business. Marriott believes that the choice of life care means that retirees can plan a future "relatively free from financial worry. Life care residents have the security of knowing that their one-time entrance payments and monthly service fees provide a comprehensive array of services." Marriott Lifecare Retirement Communities will include housekeeping and dining services, recreational facilities, and skilled nursing care.

COMFORTABLE SETTING. According to William Eggbeer, vice president of Marriott Lifecare Retirement Communities, The Vista at Canyon Lakes will feature 324 residences and a community center serving as the social and recreational hub. One- and two-bedroom apartments with complete kitchens range from 700 sq. ft. to 15,000 sq. ft.

Entrance into Marriott's life care community is not inexpensive. The entrance fee begins at $125,000 and is 90 percent refundable to the residents if they want to move, or, if they die, to their estates. Monthly service charges start at $1,000 depending on the size of the residence and number of occupants. Eggbeer points out that the monthly service fee entitles residents to a daily meal of their choice, weekly housekeeping services, grounds maintenance, parking, access to recreational facilities, lifelong health care services, and extensive social activities. Recreational activies include a health spa, woodworking and art studio, swimming pool, barbecue and picnic area, golf course and country club, and walking and jogging trails. In addition, each residence will feature an emergency call system.

The segment draws from a base whose affluence is increasing.



Marriott will offer home health care, as well as personal, intermediate, and skilled nursing care at the on-site health center. Staffed by a medical director and qualified health care professionals, the center will have 57 intermediate and skilled nursing beds and 55 personal care beds.

RESTAURANT QUALITY FOOD. Eggbeer foresees the foodservice operations as providing restaurant quality food similar to what may be found at Marriott resorts. Unlike traditional nursing homes which usually maintain foodservice contracts, plans call for dieticians and well-trained chefs to design and implement individual menus.

The monthly fee will entitle the resident to a choice of one daily meal in either the coffee shop or restaurant. Additional meals will be charged against the apartment or can be paid in cash. The staff dietician will plan menus which cater to the special diet needs of seniors, i.e. low salt diets, diabetic meals, etc.

The company plans to develop three life care communities over the next four years. Areas under consideration include Washington, DC, New Jersey, Connecticut, and southern California.

PERSONAL MOTIVATION. While Marriott established its life care division based on extensive research, entrepreneur Jerry Frishberg was galvanized by the needs of his mother. "I had a mother in her mid-70s and as her child I was looking for an answer. Following the death of my father, she wanted to leave her apartment but she was too active to be moved to a nursing home."

In 1977, Frishberg came across the concept of life care and determined that it was a "beautiful way of life for older people." As a result of a tour of life care communities in the Philadelphia area, which had a four- to five-year waiting list, Frishberg resigned from his job and devoted himself to developing similar residential areas. Having no experience in health care, gerontology or real estate, Frishberg hired a cadre of experts in a variety of disciplines to help him meet his goal.

During 1978 Frishberg traveled throughout the country touring facili-

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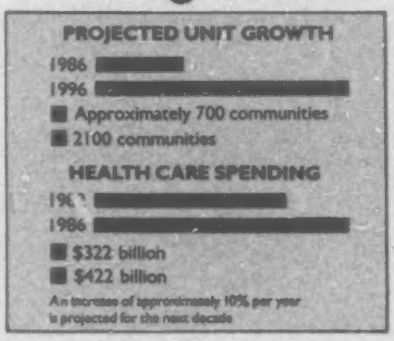
A variety of foodservice options is typically available.

As health care spending grows, so will the life care sector.



LIFE CARE *from page 205*

ties and meeting with administrators. In addition, he decided to approach the issue from an academic perspective and enrolled at the Univeristy of Pennsylvania, from which he was awarded an M.A. in Gerontology.

SPECIAL ORIENTATION. In 1979, the first of Life Care Community Corp.'s residences opened in Marple, PA, an hour outside of Philadelphia. Additional residential facilities include Logan Sq. East (Philadelphia) opened in 1984, and Pompano Beach (Florida) Court opened December, 1985. Ground has been broken for a facility in Lakewood, NJ, with opening scheduled for the winter of 1987, and there are a variety of additional projects.

Frishberg contends that today's senior citizen world can be divided into three groups: the young/old, the middle/old, and the old/old. Or as he describes them,"the go goes; the slow goes; and the no goes." He continues: "The first group is self-sufficient and still very active. The second group is still active but involved in more sedate hobbies. This group is also going through a period of reassessment. The third group is the frail elderly who require the ongoing supervision provided in nursing homes."

Life Care Community Corp. attracts the second group of seniors—those aged 75 and over who are interested in maintaining an independent lifestyle but who also see health care as a vital issue. The basic model facility consists of apartments or villas, a social club, recreational activities, dining halls, and full health care facilities. Frishberg points out that the average age of the residents is 75 and the life expectancy beyond this is 12 to 13 years.

COSTS OF LIFE CARE. Potential residents must apply and be approved based on financial and health care requirements. Costs include a 100 percent refundable one-time investment fee of $75,000 which reverts to the owner if he moves or the estate if he dies. Typically, the communities are comprised of 250 studio, one-bedroom, and two-bedroom apartments which house about 300 residents. There is also a monthly fee of $1,000 which pays for all services including one daily meal, weekly housekeeping and laundry service, mini-bus transportation, nursing care if necessary, and security patrols. Occupancy tax and utilities are also included in the investment fee.

VARIED CHOICES. Currently, Life Care Community Corp. handles its own foodservice operations in two of its communities. Although the third is contracted out, Frishberg points out that the company will take over the dining room operation at Logan Sq. East once the contract expires. The 200-seat dining rooms average 4,000 to 5,000 sq. ft., with kitchens averaging 3,000 to 4,000 sq. ft.

One daily meal is included in the monthly fee and Frishberg points out that the majority chooses dinner. Additional meals are billed monthly to the apartment. The residents at these life care communities are encouraged to organize and work with management.

The dining rooms sport a country club setting and feature restaurant amenities such as hostess seating, waitress service, and upscale linens on the table. Cyclical menus which address nutritional concerns such as low sodium requirements or diabetes are developed by an in-house dietician. Notes Frishberg: "We try to cook with no or low sodium but provide spices and dressings on the tables for those residents who are not on restricted diets." To prevent boredom, special events such as Mardi Gras night or a Fourth of July Liberty celebration are planned.

However, the main emphasis is on the basics. "Dining is a very important social activity at the communities," insists Frishberg adding, "As a result we concentrate on maintaining a high level of quality for food and service."